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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 001538

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TAGS: [ECON](#) [ENRG](#) [EPET](#) [PGOV](#) [PREL](#) [PINR](#) [IZ](#)
SUBJECT: PORTRAIT OF AN OIL MINISTER-IN-WAITING: DUJAYLI

REF: A. BAGHDAD 1197
[B](#). BAGHDAD 0405

Classified By: ECONOMIC MINISTER COUNSELOR THOMAS L. DELARE, FOR REASON
S 1.4 (a) AND (d).

[1](#). (C) Summary: In a meeting May 4, the former head of the State Oil Marketing Organization (SOMO) Dr. Musab al-Dujayli critiqued the slate of candidates for Minister of Oil under the new government. Dujayli said that former Minister of Oil and parliamentarian Thamir Ghadban was "unappointable" because of his family's Ba'athist connections. He also put himself forward as a technically competent, politically neutral candidate, in favor of international partnerships to develop the upstream oil sector and rapid liberalization of refining and distribution. Dujayli said opponents of the U.S. presence in Iraq had exaggerated the problems in the new Iraqi constitution concerning oil. End Summary.

U.S. Should Speak Out for an Independent MoO

[2](#). (C) In a meeting with Economic Minister counselor May 4, former director general of the State Oil Marketing Organization (SOMO) threw his hat in the ring of prospective candidates for the next Minister of Oil. Dujayli said that the Fadhila party is determined to keep control of the Ministry of Oil (MoO), viewing their "occupation" of the ministry as a legitimate source of finance: "No one will miss a small share from SOMO and the Distribution company."

[3](#). (C) Referring to his own dismissal from SOMO, Dujayli maintained that (then) Prime Minister Ja'afari had supported him, but was too cowardly to stand up to Fadhila (Ref A). Dujayli predicted that PM designate Maliki, in similar need of Fadhila support, would find it equally difficult to go against Fadhila. Dujayli strongly urged the U.S. to be more direct in demanding that MoO be apolitical and awarded only to an "independent," adding that the lack of clearly articulated U.S. opposition "allowed" MoO to go to Fadhila in the first place.

[4](#). (C) Dujayli said that each party had been asked to submit three names for potential ministerial candidates, and supplied the following list of what he called front-runners for MoO and their backers:

- Ahmed Chalabi (supported by Sadrists);
- Ibrahim Bahr al-'Ulum (supported by his extensive, religiously powerful family in Najaf);
- Fayadh al-Fayadh, current MoO Director General of Planning (supported by Da'wa);
- Hussein Shahrastani (supported by the 555 Coalition)

Fadhila had put forth both the current minister Hashem

al-Hashimi as well as Kedem al-Yacoubi (previously rejected as MoO, but appointed instead as MoO Hashimi's leading advisor) Ref B), but had little support in its bid to maintain control over MoO, according to Dujayli.

15. (C) Hussein Shahrستاني is "technically excellent," Dujayli said, noting that Shahrستاني is well known as both a scientist and from his tenure as deputy Speaker of Parliament throughout Iraq. "No one will criticize you if you choose him," Dujayli said. That being said, Dujayli said that his own candidacy would be acceptable to all parties: SCIRI, 555 and the Sadrists, although he admitted that no one would nominate him as he is not a member of any party.

Ghadban a Non-Starter

16. (C) Dujayli said that Thamir Ghadban, widely viewed as the most technically competent candidate, would not be chosen for MoO two reasons. First, four of Ghadban's six brothers were high-ranking Ba'ath Party members, including one who reportedly put down an uprising in Karbala while head of a security organization and another who had been a judge who prosecuted "collaborators" under Saddam. For this reason, Dujayli said that 555 would "never agree" to Ghadban.

17. (C) Ghadban's second problem, Dujayli said, is his support of the Ba'ath Party's "national effort" approach to economic development, an approach that allows for a minimum of foreign cooperation and investment. The Iraq Petroleum Company (IPC) had actually been a consortium of international oil companies (IOCs) prior to its nationalization under Saddam in 1975. Saddam's institution of national effort was,

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at best, able to keep pace with IPC's production of three million barrels of oil per day (BPD). Dujayli said that Iraq could manage six million BPD only with IOC involvement, as their management and entrepreneurial expertise was essential and absolutely lacking in Iraq's oil industry today. "People in the oil sector are committed to the old (Ba'athist) philosophy," Dujayli said, adding that many in Iraq remain suspicious of international companies.

"If I Was Minister..."

18. (C) Asked about his plans should he be chosen as Minister Oil, Dujayli said that liberalizing the oil products market would be among his first actions, noting that Baghdad has only some 130 service stations. Dujayli said that Saddam used the small number of service stations as one more measure of control over society, and that no new stations had been built in Baghdad since Saddam's overthrow. Prices must also be raised, as the current rate of subsidy costs the GOI some \$18 billion (Note: Dujayli's calculation includes the lost opportunity cost of providing some 500,000 BPD for refining (\$25 million/day), plus \$4 billion for imported fuel and another several billion dollars-worth of fuel used to generate electricity.

19. (C) On refining, Dujayli said he favors first taking over Iraq's three main oil companies and then privatizing them by a sale of shares. The companies would be run by independent boards of directors and would have no government involvement or formal coordination among themselves. He expressed some disappointment with the U.S., saying "I thought you would bring your ideas with you, not just your soldiers...a private, free market goes hand in hand with democracy."

110. (C) Returning to his earlier theme, Dujayli said that Iraq cannot rely solely on "national effort" to develop its upstream oil sector. The example, he said was in Iran: "the clergy cannot develop an oil industry - (Iran) has nothing."

Dujayli said that he was viewed as being "brainwashed by the Americans" for his views. Most officials think "the oil is ours, and we should enjoy the benefits." Chief among this school of thought is the clergy, among whom Dujayli counted the current Fadhila leadership at MoO.

Constitutional Problems Exaggerated

¶11. (C) Dujayli maintained that the "constitutional problems" as they relate to the oil sector had been exaggerated. "Even under Saddam we could negotiate production sharing agreements (PSAs) and service contracts, and that law still stands. He said that anti-American forces among Iraq's neighbors, and their Ba'athist and Islamic supporters in Iraq have brought much of the furor over the constitution about. These forces want the American "democratic experiment" in Iraq to fail. "Those who took refuge in Iran (under Saddam) are opposing you now," he said. Dujayli maintained that Iraq needed some successes to turn the people away from Iran.

¶12. (C) Comment: Of the would-be MoOs with whom we have spoken thus far, Dujayli appears to be furthest ahead in the openness of his thinking on involvement of IOCs in Iraq's energy sector - aware as we are that he may be speaking at least in part for our benefit. Particularly welcome is the priority he attaches to opening up the distribution of oil products to the private sector. Although he describes his candidacy as "unobjectionable" to all parties, his dismissal earlier in the year only highlights his lack of political backing - without which he cannot be nominated for the position. We also note that his tenure at SOMO was one of unregulated - and unfunded - fuel imports, for which Dujayli must take at least responsibility.
KHALILZAD